

THE MISSOURI BUDGET

FISCAL YEAR 2005

GOVERNOR BOB HOLDEN

THE MISSOURI BUDGET

FY 2005 BUDGET GOVERNOR'S RECOMMENDED SOLUTION TO SHORTFALL

Revenue Shortfall

Increased Collections	505.0
Loss of One-Time Funds	(522.7)
Undo Withholding	(156.9)
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	(174.6)

Spending Pressures

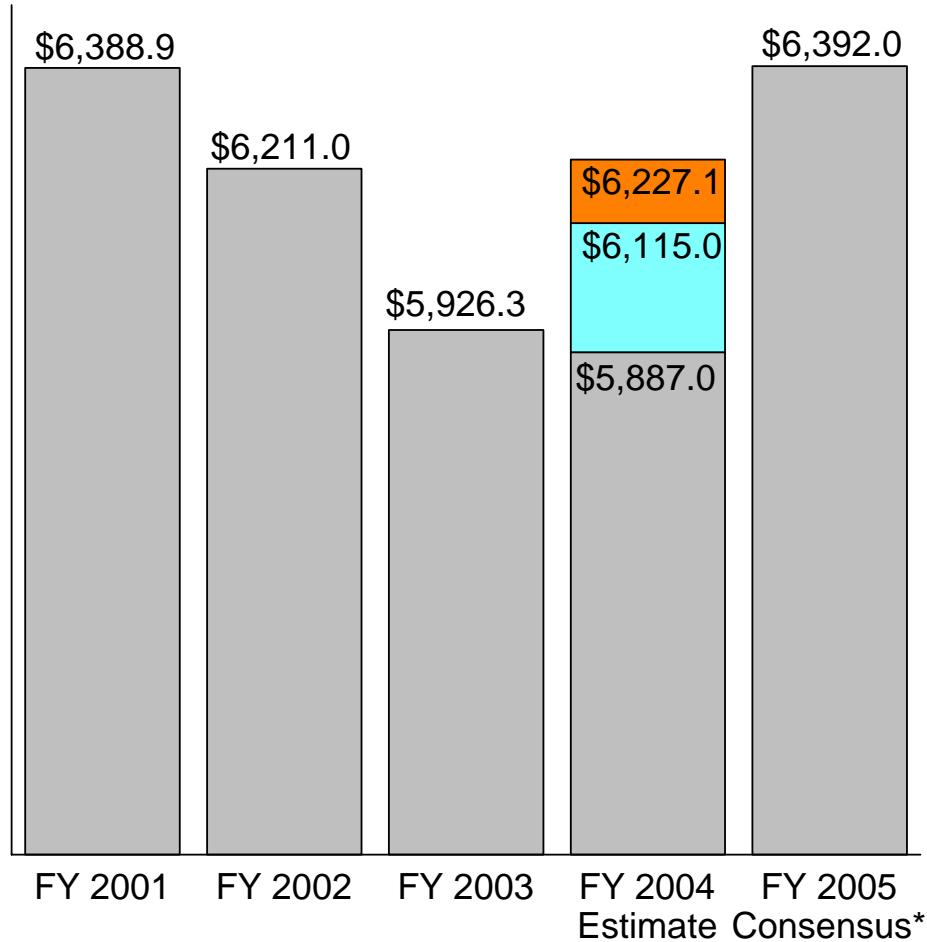
Mandatory	(408.4)
Restore Education	(156.1)
All Other	(60.0)
One-Time Spending/Excess Authority	26.3
	<hr/>
	(598.1)
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Total Shortfall	(772.8)

Solutions

Non-Medicaid Cuts/Cost Containment	85.2
Medicaid Cuts/Cost Containment	51.9
Maximize Other Funds/Cut GR	115.8
Revenue Package	520.0
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Total Solutions	772.9

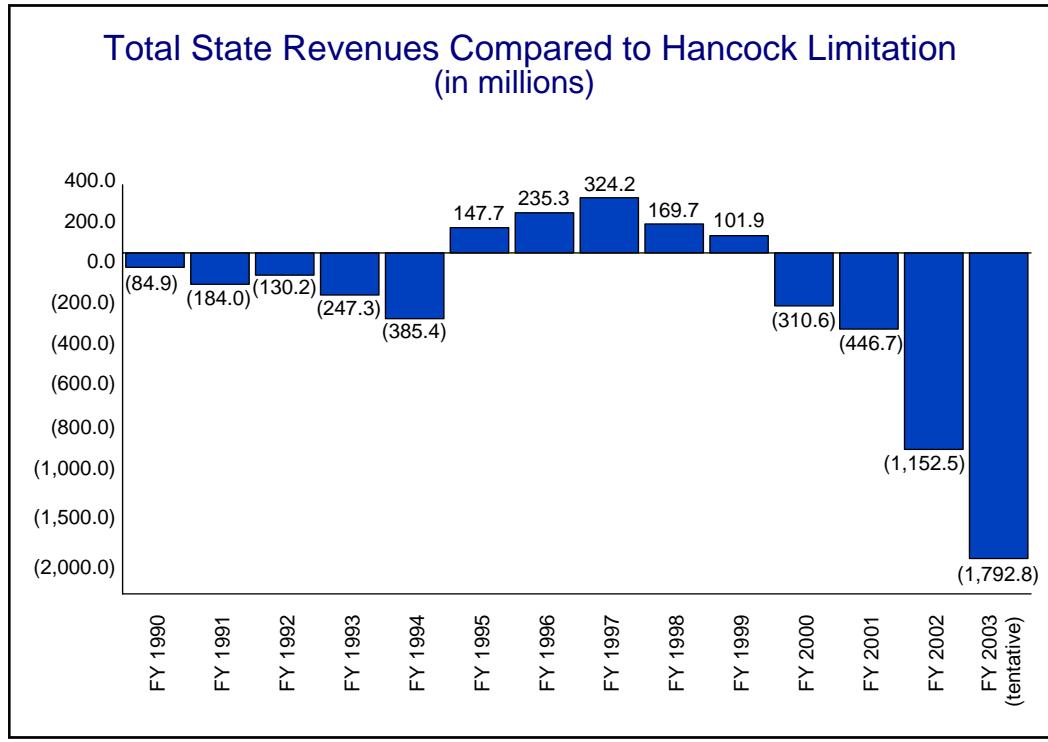
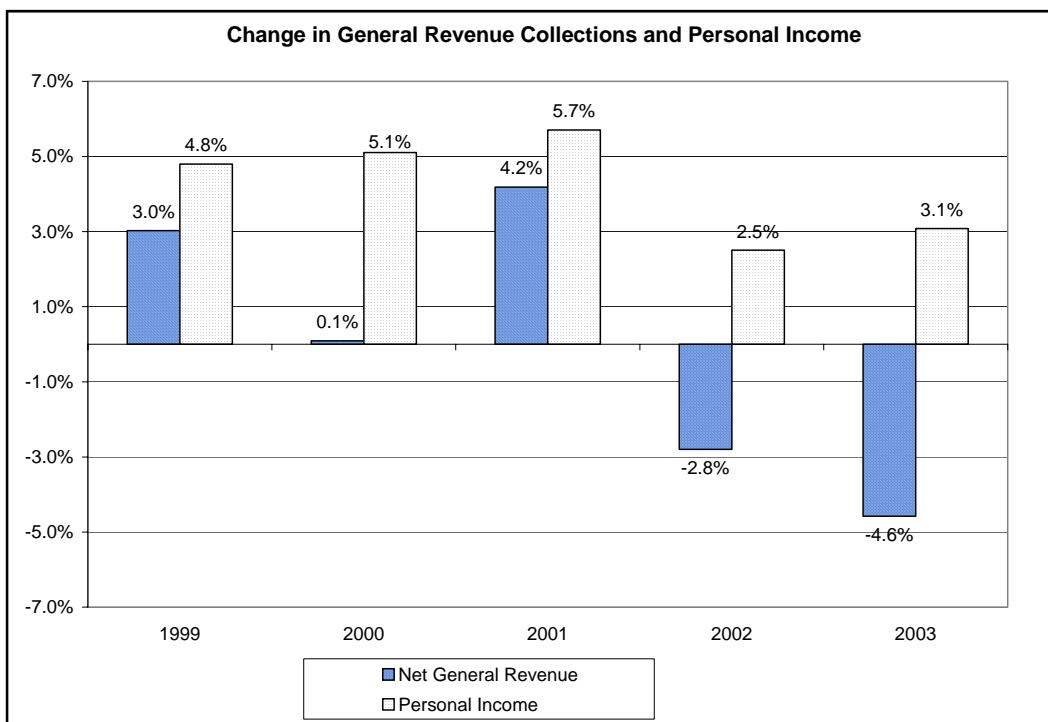
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Net General Revenue Collections (millions of dollars)



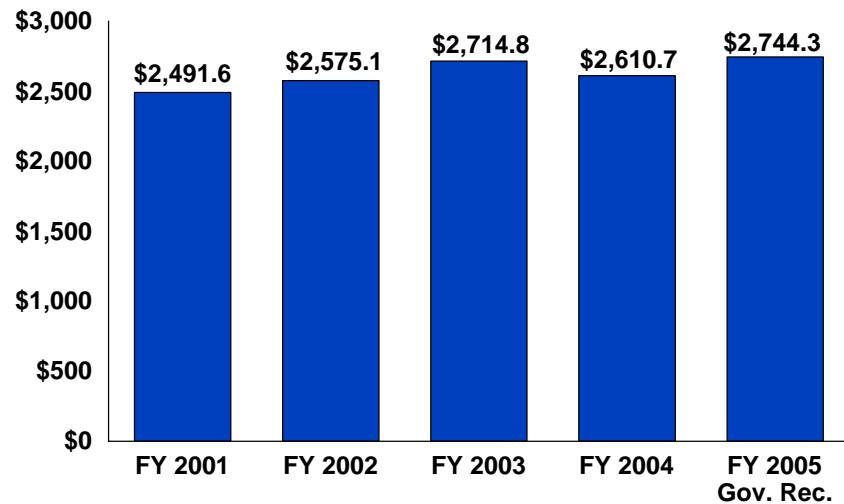
*All parties agree to reevaluate the situation in April and revise accordingly.

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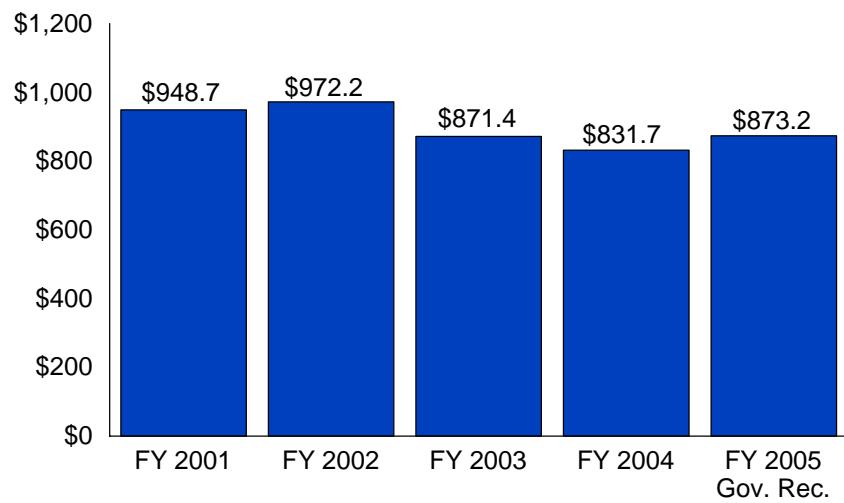


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Foundation Program Appropriations
(in millions)



Higher Education Institution Appropriations
(in millions)



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FY 2005 GOVERNOR'S RECOMMENDED NEW DECISION ITEMS SUMMARY (millions of dollars)

Medicaid	283.9
Special Education	19.4
Fringe Benefits	47.3
Corrections	9.4
DESE Misc.	7.9
Revenue Generators	7.0
Veterans	5.1
Mo. Senior Rx	7.5
State Debt	5.7
Elections	5.8
Social Services	2.7
AMTRAK	1.2
All Other	5.5
	408.4
Foundation Program	114.6
Higher Education	41.5
Foster Care Workers	6.1
General Relief	5.0
Women's Healthcare	5.0
Pay Plan	33.3
Fringe Benefits	8.7
Miscellaneous	1.9
	216.1

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TARGETED REVENUE ENHANCEMENTS

Closing Loopholes (\$121.2 million):

- Geoffrey loophole - \$11.3 million – National franchises set up dummy corporations in other states to avoid a large portion of Missouri taxes. Illinois and 25 other states have closed this loophole.
- Disallow non-Missouri source income - \$23.3 million – Missouri may be the only state that allows corporations to avoid paying state taxes on income from out-of-state investments such as bank deposits, stocks, and some loans.
- Refunds to purchasers - \$7.5 million – Businesses are not required to even attempt to return overpayment of sales tax to the purchaser. Consultants have mined businesses for such sales tax refunds.
- Disallow single factor - \$57.9 million – Missouri's tax code provides corporations an enormous advantage not given by other states by allowing them the opportunity to choose the method of determining what portion of the corporation's income Missouri taxes.
- Common carriers - \$7.4 million – Today, anyone can register as a common carrier by paying a relatively modest fee and such registration is no longer required in most cases.
- Eliminate timely filing discount for withholding tax - \$13.8 million – Missouri is the only state that provides this discount, which was originally justified on the basis that businesses required a large amount of staff time to figure out how much withholding should be remitted to the state.

Gaming Revenue (\$115.7 million):

- Increase tax on riverboat gaming receipts - \$24.5 million – The current adjusted gross receipts tax is 20 percent and is shared by the state (18 percent) and the local governments where the riverboats are docked (2 percent). The Governor's proposal raises the state share by two percentage points.
- Increase the riverboat gaming admission fee - \$51.1 million – The current \$2 admission fee is charged for each two-hour cruise. The Governor proposes changing this to a flat daily fee of \$7.
- Eliminate loss limits on riverboat gaming - \$40.1 million – Missouri is the only state in the nation with a loss limit on riverboat gaming.

Tobacco Tax (\$222.4 million):

- Cigarette tax - \$207.5 million – Increase the tax on a pack of cigarettes from 17 cents to 72 cents. Currently, Missouri's cigarette tax is fifth from the bottom of all states. The increased tax would move Missouri to about the average rate across the nation, but still below both Illinois and Kansas.
- Other Tobacco Products - \$14.9 million – Increase the tax on other tobacco products from the current 10 percent of wholesale price to 30 percent.

Miscellaneous (\$60.7 million):

- Surcharge on taxable income greater than \$200,000 - \$11.9 million – Place a five percent surcharge on the tax paid by those with taxable income greater than \$200,000.
- Accelerated depreciation - \$48.8 million – Make the moratorium included in SB 1248 (2002) permanent. Federal accelerated depreciation will no longer be allowed to reduce Missouri taxes, but would still be allowed on federal returns.

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REDUCTIONS TO THE BUDGET

Previous Cuts Have Been Deep:

Missouri has always been a low tax state and has, therefore, provided only essential services at a very low cost. The state's already low tax level combined with two consecutive years of declining revenue have led to significant reductions in many programs. For example:

- \$115.8 million cut from the school foundation program. Since a significant percentage of the foundation program supports teacher salaries, 2,001 classroom teachers and aides positions were eliminated. An additional 508 other positions were also eliminated.
- \$40 million cut in state aid to public higher education institutions. Tuition costs at Missouri's public four-year colleges and universities rose by an average of 14.8 percent in the last year while tuition costs at Missouri's community colleges have risen by an average of 9.3 percent.
- \$75 million state and federal funds cut from Medicaid resulted in approximately 34,300 Missourians losing health care. This reduction eliminated healthcare coverage for parents trying to transition from welfare to work and reduced coverage for pregnant women.
- \$10.3 million cut from the Grandparents as Foster Parents Program. The reimbursement rate was reduced from \$202 to just \$68 per month for the 2,500 children served by the program.
- \$10.3 million in reductions to psychiatric community programs for over 4,000 seriously mentally ill and emotionally disordered children and adults.
- \$7.2 million in reductions to community programs for 2,000 disabled Missourians, resulting in reduced services to autistic clients, day habilitation, respite care, and transportation services.
- \$3.8 million in reductions to substance abuse treatment services, resulting in more than 1,300 clients no longer having access to services.
- \$3.1 million cut from environmental health and communicable disease prevention efforts.
- \$3.6 million for women's primary health care services was eliminated. This program served over 30,000 low-income women throughout the state.
- \$2.6 million was cut from the Department of Corrections, eliminating 88 institutional staff positions.
- \$6.2 million was cut from the Customized Job Training program.
- \$1.1 million in technology funding cuts has resulted in the elimination of the Centers for Advanced Technology and Electronic Materials Applied Research Center programs.
- \$4.8 million in transportation assistance cuts has eliminated approximately 1.3 million trips.
- \$4 million for Landmark Local Park grants has been eliminated.
- The number of state employees has been cut significantly, particularly general revenue funded staff. For example, from Fiscal Year 2001 through 2004 DED lost 48 percent of its general revenue staff; OA lost 25 percent; DPS lost 18 percent; DHSS lost 16 percent; and DMH lost 8 percent.

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REDUCTIONS TO THE BUDGET (Continued)

Streamlining Government

Between Fiscal Years 2001 and 2004, over 2,000 state positions have been cut. The Fiscal Year 2005 budget includes a net reduction of an additional 1,000 positions, bringing the total to 3,000. Comparing 2003 to 2002 year-to-date employment, Missouri had the sixth largest percentage **decrease** in state and local government employees of all the states. Although deep administrative cuts have already been made, the following additional efficiencies will be implemented:

- **Early Retirement** – This incentive plan resulted in a reduction of 557 positions, saving \$10.5 million general revenue and \$18.2 million total funds.
- **Spend Management** – This contract guarantees savings of at least twice its cost and annual savings of between \$6 and \$9 million, all funds, are projected in the first year. Additional savings are expected in future years. The effort is two-pronged – get the best price possible and buy only what is needed. This effort helps departments more effectively operate despite large cuts in previous budgets.
- **Responsible Debt Management** – Maintaining a good bond rating saves taxpayers money. Refinancing debt when market conditions warrant has saved over \$69 million the last two years. To continue savings, \$200,000 is recommended in Fiscal Year 2005 for a debt management program to hire outside consultants to monitor the state's debt and savings opportunities.
- **Telecommunications Savings** – Private business representatives joined with several state agencies to lower telecommunications costs. The estimated savings over the next several years could be more than \$3 million, all funds, and will help departments manage their operations with smaller budgets.
- **Vehicle Fleet Management** – The state has reduced its passenger vehicle fleet by 960 vehicles (20%) since 2002. A new initiative calls for an initial reduction of 25 percent of vehicles traveling less than 5,000 miles per year. The vast majority of these are special function vehicles such as mail delivery. Options to reduce maintenance and repair expenditures for state vehicles are being reviewed.
- **Information Technology Consolidation** – Efforts continue to effectively manage the state's information technology. An interagency review committee has recommended the state move to a single e-mail system. Savings will be generated by using the state's purchasing power to get the best deal on hardware and software and by only training employees to use one system. Staff now working on maintaining these multiple systems can be redirected to other critical needs.

Medicaid Cost Containment

Missouri has implemented many Medicaid cost control efforts, saving over \$300 million state and federal funds in the Pharmacy Program alone. The Fiscal Year 2005 budget includes measures to further cut costs. Combined, they will save about \$51.9 million general revenue. Savings will increase in future years. They include: fully implementing a preferred drug list; expanding disease management and case management; implementing copayments on some services; reducing rates paid to providers to not exceed normal Medicaid rates; improving the efficiency of the non-emergency medical transportation program; and implementing efforts to ensure Medicaid does not pay for costs that should be paid by private insurers.

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REDUCTIONS TO THE BUDGET (Continued)

Tax Credit Accountability

Many of these programs have produced outstanding results for businesses, communities, and the state. Others, however, should be eliminated or reformed because they have not fulfilled their promise or have provided an inadequate return on the state's investment. Currently there are 53 tax credit programs authorized by law. The General Assembly created 35 of those credits since 1990. These credits alone have cost the state over four billion dollars during this 13-year period.

More Efficient Prisons

The oldest prison west of the Mississippi, the Missouri State Penitentiary, will soon be closed. With continued budget pressures, it is necessary to close another inefficient prison. The Chillicothe Correctional Center will be closed and its 525 women offenders moved to the Tipton Correctional Center. The Chillicothe facility was opened in 1895 as a juvenile detention facility and in 1981 was converted to a correctional center for women. Now, there are looming repair costs of \$9.7 million. Savings from operating costs in Fiscal Year 2005 will total \$1.7 million, with additional savings in Fiscal Year 2006 of \$1.2 million. Some additional costs will be incurred because of the move, and living within Missouri's existing prison space may be a challenge. Regardless, the move will result in a net savings.

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NUMBER OF STATE EMPLOYEE POSITIONS

	FY 2001	FY 2002	FY 2003	FY 2004	CHANGE		CHANGE SINCE FY 2005	CHANGE SINCE FY 2001
					FY 2001	REC		
<u>All Agencies</u>								
General Revenue	34,580	34,123	33,545	33,758	(822)	33,066	(1,514)	
All Funds	62,846	62,848	62,173	62,523	(324)	61,423	(1,424)	

Without Corrections and Veteran's Homes

General Revenue	24,055	23,703	22,920	21,872	(2,183)	21,262	(2,792)
All Funds	51,176	51,167	50,264	49,085	(2,090)	48,087	(3,089)

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